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ORIGIN EB-04

INFO OCT-01 ISO-00 /005 R

DRAFTED BY: EB/ORF/FSE: LRRACHT

APPROVED BY: EB/ORF/FSE: GMBENNSKY

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R 101658Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY BRUSSELS

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FOLLOWING REPEAT ROME 4241 ACTION SECSTATE, MARCH 27TH:

QUOTE

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E.O. 11652: N/A

TAGS: ENRG/IT

SUBJECT: GOI DRAFT FOR REPORT ON ROLE OF THE INTERNATIONAL
OIL COMPANIES

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REF: ROME 3729

STATE ALSO FOR T/IEP

FOLLOWING IS TEXT OF GOI DRAFT PAPER TO BE SUBMITTED TO APRIL 2 MEETING OF AD HOC GROUP ON ROLE OF INTERNATIONAL OIL COMPANIES WHICH RISTAGNO HAS ASKED THAT WE FORWARD TO DEPARTMENT.

DEPARTMENT PLEASE REPEAT AS NECESSARY.

BEGIN QTE FOR THE REPORT ON THE ROLE OF THE INTERNATIONAL OIL COMPANIES

1. PAST AND PRESENT OF THE INTERNATIONAL OIL COMPANIES AND OF THE OTHER OIL COMPANIES. THE EIGHT COMPANIES WITH INTERNATIONAL SCOPE OF ACTIVITIES (THE SO CALLED "MAJORS") FORMED THE BACKBONE OF THE GLOBAL OIL SUPPLY AND INVESTMENT STRUCTURE. ALONGSIDE THEM, NATIONAL COMPANIES OF CONSUMER AND PRODUCER COUNTRIES AND SO CALLED INDEPENDENTS DID OPERATE, BUT IN MOST CASES ON A MARGINAL SCALE. THE ROLE OF THE INTERNATIONALS WAS MAINLY THEIR ABILITY TO BALANCE SUPPLY AND DEMAND BY PRODUCING ROUGHLY AS MUCH CRUDE OIL AS THEY COULD SELL. NOW THAT THIS ROLE OF DECISION MAKING IN RESPECT OF PRODUCTION, INCLUDING THE INVESTMENT DECISIONS, IS BEING TAKEN AWAY FROM THEM IN OPEC COUNTRIES A REASSESSMENT IS REQUIRED.

2. POSSIBLE FUTURE DEVELOPMENT OF THE INTERNATIONAL OIL INDUSTRY. THE INTERNATIONAL OIL COMPANIES, THOUGH REDUCED IN SCOPE AND SHARE, REMAIN IN THE NEAR FUTURE AN INDISPENSABLE PART OF THE WORLD STRUCTURE, BUT THE TRADITIONAL MAJOR OIL COMPANIES WILL NO LONGER BE MOTIVATED TO THE SAME EXTENT AS PREVIOUSLY BY THEIR CRUDE OIL AVAILABILITY TO INVEST IN CONSUMER COUNTRY REFINERIES AND MARKETING; IN FACT THEY MIGHT WISH TO WITHDRAW FROM ACQUIRED POSITIONS. ON THE OTHER HAND A STRENGTHENING OF NATIONAL COMPANIES IN CONSUMER COUNTRIES IS NECESSARY BECAUSE IT IS THEY WHO WILL HAVE TO TAKE OVER CERTAIN ACTIVITIES PREVIOUSLY CARRIED ON BY THE TRADITIONAL INTERNATIONALS. SINCE NATIONAL GOVERNMENT OWNED COMPANIES OF PRODUCER COUNTRIES WILL HAVE A GREATER ROLE TO PLAY, IT IS INEVITABLE THAT GOVERNMENTS AND STATE COMPANIES IN CONSUMER COUNTRIES SHOULD BE ABLE TO BECOME EFFECTIVE INSTRUMENTS. THIS WILL APPLY NOT ONLY TO "DOWNSTREAM" OPERATIONS IN THEIR OWN LIMITED OFFICIAL USE

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COUNTRIES BUT ALSO TO INVESTMENTS ELSEWHERE IN EXPLORATION AND PRODUCTION. BECAUSE OF THIS SHRINKING ROLE OF THE MAJORS AND THE NEW EXPANDED ROLE OF THE NATIONAL COMPANIES IN CONSUMERR COUNTRIES, IT IS NECESSARY TO DEVELOP VIABLE NEW ALTERNATIVES. IN THIS CONNECTION, THERE IS URGENT NEED FOR THE RELATIVE POSITIONS OF ALL THE OPERATORS TO BE DEFINED AND TO BE SAFEGUARDED.

3. PROPOSALS FOR A NEW SETTLEMENT OF THE INTERNAIONEAL OIL INDUS-

TRY. WITH REFERENCE TO THE ABOVE MENTIONED SITUATION
A SYSTEM SHOULD BE ENVISAGED IN WHICH THE VARIOUS ELEMENTS CAN
COEXIST AND COOPERATE. FOR THIS TO HAPPEN THE PRECONDITIONS
SEEM TO BE:

A) IF THE PRESENT TREND TOWARDS (AT LEAST NOMINALLY) TOTAL
"PARTICIPATION" OF OPEC COUNTRY GOVERNMENTS MATERIALIZES,
THE OPERATIONAL ROLE OF THE PREVIOUS CONCESSION HOLDERS IS LIKELY
TO BE MAINTAINED TO SOME EXTENT AND INSTEAD OF HAVING THE ORIGINAL
BENEFIT OF DISPOSING OF "EQUITY" OIL THEY ARE LIKELY TO HAVE
SUBSTANTIAL SECURITY OF ACCESS TO SUPPLIES AND ALSO SOME PRICE
ADVANTAGE IN RESPECT OF THEIR "BUY-BACK" QUANTITIES.

B) TRANSPARENCY OF THESE ARRANGEMENTS WILL BE ESSENTIAL, TO
AVOID EXCESSIVE PROFITS WITHOUT HOWEVER AFFECTING THE VIABILITY
OF THE OPERATION. TRANSPARENCY IS ALSO REQUIRED IN ORDER TO AVOID
A SITUATION IN WHICH THOSE OPERATORS OUTSIDE THE EIGHT INTERNATION-
ALS ARE EXCESSIVELY HANDICAPPED BY HAVING TO RELY ON SUPPLIES IN
AN IRREGULAR MARGINAL MARKET WHOSE PRICES FLUCTUATE
WILDLY AND CAN BE (AS THEY WERE RECENTLY) MUCH HIGHER THAN THE
LEVEL OF MAJOR COMPANY PRICES.

C) SUCH TRANSPARENCY MIGHT LEAD TO A TRIANGULAR ORDER IN
WHICH THE TRADITIONAL COMPANIES (WHOSE SHARE IN THE TOTAL FLOW OF
OIL IS GOING TO SHRINK ANYWAY) WILL HAVE AN AGREED ADVANTAGE IN
RECOGNITION OF THE LOSS OF THEIR CONCESSIONAL RIGHTS, BUT THE
REST OF THE INDUSTRY (WHOSE SHARE IS GOING TO INCREASE) WILL
HAVE THEIR RELATIVE POSITION CLARIFIED AND ASSURED.

D) IT IS LIKELY THAT THE INTENDED CONTACTS BETWEEN CONSUMER
AND PRODUCER COUNTRIES WILL PROVIDE OPPORTUNITIES FOR THE LATTER
TO EXAMINE THE ADVANTAGE FOR THEM OF A MORE STABLE AND STRUCTURED
SET-UP. THE RECENT DISAPPOINTMENTS THEY FACE WILL HAVE PROVED
TO THEM THAT AN "AUCTION" SYSTEM OF DISPOSAL IS IN THE LONGER RUN
DISADVANTAGEOUS FOR THEM TOO. AN INDUSTRY WHICH DEPENDS ON HEAVY
AND SUSTAINED INVESTMENTS CANNOT BE RUN IN THIS WAY.

END QUOTE.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOCUMENTS, PETROLEUM INDUSTRY, BUSINESS FIRMS, FOREIGN POLICY POSITION, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE072558
Document Source: CORE
Document Unique ID: 00
Drafter: EB/ORF/FSE: LRRACHT
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740083-0558
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740451/aaaabufu.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: ROME 3729
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 01 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 APR 2002 by boyleja>; APPROVED <06 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI DRAFT FOR REPORT ON ROLE OF THE INTERNATIONAL OIL COMPANIES
TAGS: ENRG, IT, XX, OECD
To: BRUSSELS MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005